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Exploitation, Banking and The Trade Cycle

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Exploitation, Banking and The Trade Cycle.

> One might succeed in explaining to the dullest of men the most difficult of problems, if he had no previous conception in regard to them; but it is impossible to explain to the cleverest man even the simplest matter if he is perfectly sure that he knows all about it.
>
> —Tolstoi.

By "exploitation" is meant the legal acquisition of wealth without adequate effort or sacrifice on the part of the recipient.

All men are more or less willing to exploit. Some do not know that they are exploiting, some believe that exploitation is not only legal but moral also; some are vastly indignant when told that private rent, profit and interest are exploitation, and that, in effect, they are only legalised forms of robbery. So familiar indeed are these terms that we are quite ready to believe that they express eternal laws given to us by Nature herself. How can we be exploiters, we who have never stolen a penny in our life, and scrupulously paid our debts?

Though we may reasonably be content to leave for the time untouched the moral aspect of Capitalism, yet, right or wrong, wise or unwise, private rent, profit and interest are forms of surplus value and surplus value is exploitation. The term has a wide meaning; we may exploit nature, to some extent we must exploit nature, because we are not able to replace the coal, iron ore and other materials taken out of the ground, although we can, in time, replace the trees cut from a virgin forest. In one sense this loss is a part of the cost of the commodities. It is a real reduction of national riches and a permanent loss to posterity against which, however, posterity must set its inheritance of advanced knowledge and technical methods.

Ownership is essential to exploitation, but there can be ownership without exploitation—thus, the food we eat, the clothes we wear, we own and use exclusively, yet, if won by honest toil, they are neither the result of, nor the means of, exploitation. Only private ownership of land or capital—or some legal advantage—gives, to individual or class, an indestructible power to exploit an individual or class which does NOT own land or capital. This kind of ownership is known as monopoly, and it is only by destroying monopoly that we can destroy exploitation.

Unhappily (for a clear and sound appreciation of the subject) certain methods of producing and distributing wealth, long consecrated by usage, have come to be called "laws"—most improperly. Such "laws" are mere generalisations of the methods of Capitalism: they hold, therefore, just so long as Capitalism endures; they are not "laws of Nature," that is, generalisations of universal applicability; still less are they "fixed laws, immutable and universal," as are the laws of physics. Thus popular, but very loose, usage has come to speak of the "LAWS of Rent, Profit and Interest." Greater abuse of the meaning of "law" it is hard to conceive.

RENT.—It has been generally recognised, at least since Henry George's day, that Rent is exploitation. Landlords are able to exploit, not because they DO, but because they OWN. No one can make land. The value of unimproved land is due entirely to the presence and wants of a community. The growth of this value has been aptly called "unearned increment," and it is readily seen that rent for the exclusive use of land should be paid to the community and not to the individual.

It is not, however, so clearly seen that rent for improvements should be paid neither to the individual nor to the community.

That, probably, will be denied. "If I invest," someone may say, "£1000 in Government bonds or some 'industrial,' I can get an annual income of, say, £50; why may I not get the like if I invest in houses or land?"

To that question we reply: Two blacks do not make a white; you are only entitled to what you make, directly or indirectly (or to what is given to you). If you work in your garden you may justly enjoy the beauty of its flowers, or you may sell them or give them away. But if you allow another to live in your house you may not, with justice, ask him to pay rent. You may, however, require him to keep your garden in order and your house in repair and to pay you for any depreciation it suffers through age during the time he uses it. Moreover, he may justly be called upon to pay to the

community rent for the use of the land. This assumes, of course, that house and land is justly your possession.

If you cannot, or will not, use the house yourself, how are you harmed if another keeps it in good condition and when called upon hands it back to you? He has replaced what he has consumed. You have back again in good condition what otherwise would have deteriorated. Here, however, we trench on the ethical aspect of Capitalism and come naturally to the other forms of exploitation—profit and interest.

PROFIT.—Economic history tells us of the gradual loss by the many of the agents of production and their engrossment by the few. Divorced from his land and his spinning-wheel the laborer could neither dig nor spin without concurrence of landlord or capitalist: all he had of his own to sell was his labor power. But he was no longer bound to the soil: he was free to roam the countryside in search of work. With the advent of the factory and wage-system the Industrial Revolution was complete: the two chief features of which are: (1) ownership of factory and its products by, as a rule, those who do not work in the factory: (2) Payment of wages in money to those who do work in the factory. The present day has brought a further though by no means unimportant development in that factories are now generally owned by shareholders and operated by their appointees, directors to look after the surplus value, managers to look after the men. Meantime the shareholder sits back and waits for his profits. And these profits arise? Primarily they are the difference between cost-price of production and sale-price of goods produced. 'Cost-price' includes maintenance of plant, purchase of raw or partly manufactured materials, and wages and salaries. 'Sale-price' is whatever can be obtained in the market for the goods. Thus profit is sale-price minus cost-price.

A word of explanation as to wages. Wages are paid in money: but real wages are the goods that those money-wages purchase. Real wages for some centuries have not varied much: it is a matter in dispute whether they have increased at all: there can, however, be no doubt that the increase, if any, has been slow and small. They are fixed by custom or law on the existing standard of comfort of the working class, and no attempt is made to determine them by value of work done: they must however be sufficient to enable the laborer to live and rear a family.*

*Where, as in Australia, wages are fixed by the Court, the rate enacted is based on the assumption that a man has a wife and children (two by the state courts of N.S.W., three by the Commonwealth courts), neither more nor less; and that he will be constantly employed, but no guarantee of constancy of employment is given.

Methods of factory production are continually being improved. The same staff of men is enabled to turn out, in the same time, a steadily increasing quantity of products, and this not only by reason of better organisation but also by the use of better technical methods and better machinery. Wages and salaries, however, remain constant, or—at most—increase at a slower rate. It follows that of the total quantity of goods produced an ever-increasing share falls to the lot of factory owners. This an illustration will make clear.

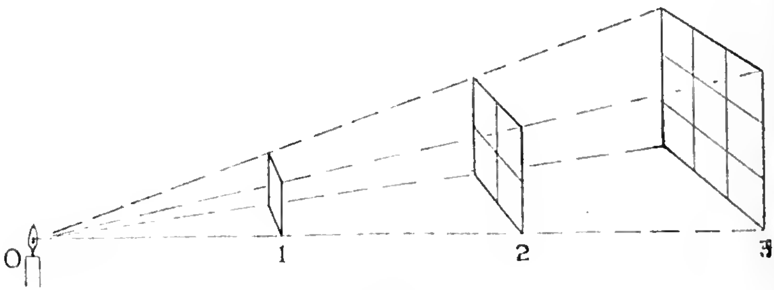

Fig. 2.

Figure 2 shows squares drawn on lines whose lengths are 1, 2, and 3, and placed at distances 1, 2 and 3 from a reference point. These squares may be used for the purpose of illustrating what is known as the law of inverse squares. That law is followed by all forces (such as light, heat, gravity, etc.) emanating from one point, as 0 in the figure, and spreading out equally in all directions. The law states that the intensity of the force varies inversely as the square of its distance from the point of origin. That is, the more the force spreads out, the weaker it becomes. Take the case of light, the square on distance 2, and the square on 3, are shown divided into 4 and 9 small squares respectively, and each of these small squares is of the same area as the square on distance 1. It will be seen that as the light illuminating the first small square at distance 1 is a constant quantity which spreads out and illuminates uniformly the whole of the square on distance 2, each of its four small squares must receive only one-quarter of the light which falls on the first small square at distance 1, so similarly each of the small squares at distance 3 gets only one-ninth the amount of light which shines on the first small square at distance 1. That is, the quantity of light per small square is reduced from 1 to ¼ and 1-9.

Now replace this unit of light by a unit of labor—one standard hour—and suppose that by the introduction of machinery and the sub-division of labor, and generally by better methods of manufacture introduced from time to time the productivity of labor is gradually increased, so that instead of one article, ultimately nine articles of the same kind can be produced by one standard hour of labor. Then in the same labor-time nine articles are made instead of one.

Suppose that at stage 1 there are no surplus products and the laborers receive in wages all the goods they make—represented by the small square on distance 1. Then at stage 2—assuming, as we may, that real wages are constant—the laborers receive one small square, and the capitalists three; of the three one, let us say, goes to replace raw materials, and worn-out machinery, leaving a surplus of two small squares; then the value of these two squares constitutes surplus value. At stage 3 the laborers receive, say, 1½ small squares (equal to a 50 per cent. increase in wages) and the capitalist 7½ small squares, of which, say, 2½ go to replace raw materials and plant, leaving a surplus of 5 squares as profit.*

*We have stated profit here in terms of products: the exchange-value—or price—of these surplus products in gold is surplus-value expressed in terms of gold coin.

The real, or inherent, value of a useful thing is the number of standard hours of human labor which it contains. We may be willing, or compelled, to exchange a useful article containing a large number of standard hours for one containing a smaller number, and Economists have almost without exception concentrated upon the study of such an exchange. Hence they have come to confuse themselves and their readers by using "value" as though it meant the quantity of some other thing which we can, at a given time and place, get in exchange for something we own. That "some other thing" is generally gold, and gold therefore is to them the measure of exchange-value. To grasp the real meaning of value we must see below the surface aspect (exchange-value) and understand what is meant by a standard-hour of human labor. Let us suppose that a natural hour of what is called "unskilled labor" is taken as our measure of inherent-value. Assuming inherent-value as at the present day we suppose a laborer to use the tools, machinery, methods in general use to-day and to work with the average skill, intelligence and intensity of his class ("unskilled" labor is not, of course, without some skill). Every hour he works in this way on the making of a useful article he incorporates in that article one standard hour of labor. All other kinds of labor are then to be reduced to terms of this standard, and so reduced "by general consent." A "skilled" laborer then may impart to the article he makes or assists to make one standard hour for every 45 minutes he works: a foreman may impart one S.H. for every 35, a manager one S.H. for every 15 minutes. The manager's salary, then, will be four times that of the unskilled laborer.

It is thus comparatively easy to ascertain the inherent-value, measured in "standard-hours," of any useful commodity. The inherent-value of any article is fixed: its exchange-value is variable. Now if one article containing 10 S.H. is exchanged for another containing 8 S.H. what is lost by the owner of the first article is gained by the owner of the second. The total quantity of value whether inherent or exchange is 18 standard hours. The sum of all exchanges must balance, for no accident of exchange can alter the quantity of inherent-value. Thus, the exact measure of value is the standard-hour of labor, snd not gold, or any other commodity.

We distinguish between "riches," i.e., the useful productions of nature, and "wealth," i.e., the useful productions of man.

Wealth = Riches + Value: in other words,

Wealth = Land + Labor.

By "land," in the second equation, is meant matter of some sort.

Value is human effort of mind and body expended in services or embodied in goods. Value has two aspects, "inherent," often called

THIS THEN IS HOW THE MANUFACTURER MAKES HIS WEALTH.

But the manufacturer is compelled to share this surplus-value with his landlord. (How that is done is explained elsewhere.)* Moreover he is compelled to share with the merchant, and if he works on credit, with the banker. Even so—Falstaff robs the travellers: Prince Hal and Poins rob Falstaff: and the entire company of robbers share the loot.

INTEREST.—If few understand how the worker is exploited by manufacturer and employer, fewer still seem to understand a parallel exploitation, that of manufacturer and employer by the banks. We propose to devote a larger space, disproportionate only because the matter is so much less understood, to this last form of exploitation, which is the more concealed by the veil of mystery which "money" casts over all matters of commerce.

Before money existed, or was in common use (as in the early stage of the "Manorial" system) exchange of goods was by barter. That (admittedly awkward) arrangement was gradually altered as money came into more general use, and gold became not only a "go-between" (or recognised medium of exchange) but also a definite measure of exchange value. Now if the basis of money is gold, then the price of a thing becomes at once the weight of gold given in exchange for that thing. It is no short "cry" from the Manorial system to the late war, '14-18, and the steps of the change, gradual as they were, hardly concern us, but long before the war gold had been receding into the background as a medium of exchange, and bank-notes and cheques were taking its place. Still, gold remained the MEASURE of the exchange-value of goods. When the war began gold-payments were at once suspended, and gold ceased to be (not only a means of exchange) but the measure of value, except internationally. No one pretends that gold is a good measure of value: it is not constant: it stretches, like a yard of elastic, but it is less elastic than a paper note.

With the opening of the war paper money became legal tender—took, that is, the place of gold. (At one time of course a bank-note conveying a definite "promise to pay in

*"From Capitalism to Freedom."

"intrinsic," and "exchange." The former always and entirely consists of, and is, human effort. The latter (exchange-value) may occasionally consist of power to command service (as by the legal ownership of lands, etc.).

The means by which I command service, or convey to another the power to command service, is tantamount to that service itself. It is in this sense that land "contains" labor or service.

Land is not a product of labor, but it is often the means of extracting labor from others, and such land has exchange-value.

For a detailed discussion of this subject the reader is referred to "From Capitalism to Freedom."

gold" was, to all intents, itself gold. But, and for a long time after the war, a "note" was not payable in gold, represented therefore not gold but commodities. That might not have been so much amiss, if a "note" had been, it unfortunately was not, "attached to" a particular quantity of a particular commodity, or even to a particular quantity of a number of commodities taken together. But, as it was not, the inevitable followed, and "notes" proved to vary more in value than had their predecessor, gold.

Even in the old days, when "notes" were payable on demand in gold the position was not really sound—for, as against every sovereign in coined gold, held in the vaults of the bank, or the general gold reserve, there were always three or even four "notes" of the face value of £1 in circulation, and as a necessary consequence any and every bank could be "broken" by a united or sudden demand to "pay in gold" against its notes in circulation. Ostensibly founded on a "gold reserve" the note circulation of any bank, private or public, really rested, for at least three-fourths of its liability, on some form of wealth other than gold, viz., upon property owned by banks.

CREDIT.—As nearly everyone knows, the principal and most important means of exchange is neither gold nor notes; it is credit. And the real foundation of credit is property, of some kind or other, owned NOT by banks but by customers of banks.

NOTE THEN THAT BANKS, WHEN THEY ISSUE CREDITS, CHARGE THEIR CUSTOMERS INTEREST OR DISCOUNT ON THEIR CUSTOMERS' OWN WEALTH.

It is true that a bank, holding one sovereign for every four notes it issues, may, if given time, realise upon its own property and so, ultimately, pay for all its notes in gold, but to pay all its credits, even in paper, it must sell its customers' property.

Let us try to make this clear. Suppose that for every £100 worth of notes in circulation, and for which a bank is liable, it holds £25 in gold and £75 in property. It can pay £25 in gold at once. Given time, it can then sell £25 worth of property receiving payment in gold, possibly the same gold it first paid away. It is now in a position to pay gold for a second £25 worth of notes. Continuing to sell its property it can pay the third, and ultimately the fourth, £25 worth of notes in gold—possibly with the same gold each time!

But it cannot perform this operation, in any length of time, with its credits because it does not, itself, own sufficient property; it can, however, meet its credits by selling its

customers' securities. Such securities consist of title deeds, share certificates, debentures, government and municipal bonds, bills of exchange, promissory notes, etc.

BANK EXPLOITATION.—If anyone has any lingering doubt, the fact is at once demonstrated by the history of the Commonwealth Bank of Australia. The bank began operations, in 1912, with £5000 in cash, "till money": and for the rest its capital was precisely the faith, and property, of its customers. In 1922, that is in ten years, it had an accumulated profit of over £4,000,000. Its capital, its OWN capital, was £5000: in ten years it "earns" on this capital £4,000,000. If we allow, what is recognised as a high rate of interest, namely, 10 per cent., and add each year this interest to its capital, it would have, at the end of ten years, approximately, £12,868, yet it had £4,000,000! If this is not exploitation, what is?

Even Shylock would have blushed to ask an average profit of eight thousand per cent. on the money he lent.

Now let us ask ourselves, what did the Commonwealth Bank do (in return for an average annual gross income of, say, £600,000)? Its managers examined the securities, and business position, of sundry customers: its clerks wrote sundry figures in sundry books, and, even, balanced these entries: its tellers received money, nearly all cheques, and paid out money, nearly all notes, but, occasionally, silver, copper, even gold. And this service—adding rent of buildings, lighting, stationery and interest (if any) on adverse "margins"—cost, on the average of the ten years, about £200,000 per annum. Against this legitimate outgoing it charged its customers £600,000.

And what is that but exploitation?

The bank might reasonably (if we assume interest to be honest) have earned, say, 6 per cent. on its capital of £5000, which would be £300 per annum, or in ten years £3000, yet it made £4,000,000! Just consider the difference.

In 1924 the "Big Five" joint-stock banks of London made a net profit of £10,948,752.*

These examples are sufficient for our purpose: they prove exploitation: we have now to show the METHOD by which banks exploit.

We readily allow that (a) credit is necessary to the existing system of industry, and (b) that banks do perform an important function, that, viz., of turning various forms of wealth into purchasing power; or, in other words, that they

*Banks make large profits from what is known as "exchange," but space does not permit of an explanation of this form of exploitation.

do liquefy otherwise solid securities. But the price they charge for this service is beyond all reason.

The "liquefying" of wealth, which is the banks' service to the community, is, and is only, the issue of credit against securities which latter are, or represent, wealth. The process is notably simple—it involves no more than the use of cheques, and the writing up of books, in the form of certain entries of credit and debit. Now every credit has a corresponding debit, a very plain fact of course but one which, apparently, so few recognise, that the subtle form of exploitation, as practised by the banks, commonly passes unnoticed. We are inclined to argue: "If I lend Smith £1000 I part with something substantial: therefore a bank must do the like." It is a, perhaps natural, inference from the particular to the general, or rather from one particular to another. But what actually happens is that the bank makes certain entries in its books, a few scratches of the pen, but parts with nothing substantial.

Which will be quite clear if you suppose that you, like a bank, are CONTINUALLY receiving as well as lending. If that holds, for you, for an appreciable period, then you are, you will find, in reality lending only THE EXCESS, the margin, that is, between what you receive and what you pay out: you have become, what a bank is, a money-lender to some extent perhaps but chiefly a lender of credits.

A bank's business is dynamic, not static—it is a moving equilibrium. We all know that so long as a top spins it will keep upright: that when it stops it falls down. So with a bank: so long as the merry-go-round of credits and debits continues the bank stands: but if they stop the bank collapses. Let every one of its customers demand spot cash and not a bank in the world would remain solvent for a moment. Many in Australia remember, all have heard of, the "moratorium" of May, '93. And if three banks stood through that week it was by no means because they had the cash to pay in full, but solely because they retained in larger measure the confidence of their customers and were not asked to pay in full.

Always, and of necessity, a bank holds SOME cash—enough to meet its "margins" and something over, but never enough to pay in full.

It may well be that the reader, if not directly connected with accountancy, will be the better able to understand what is the meaning of "cross entries" if he has before his eyes an example of banking practice. It is impossible to give a complete statement of a bank's operations—they never are complete! The bank account is always fluid and we, of necessity, must isolate a part of that perennial flow. Nor are the

accounts given, in illustration, exactly in the form adopted by banks, but they will, perhaps, be the more readily understood. It is assumed that all transactions are by cheque.

1. SMITH'S ACCOUNT.—Overdraft £1000 at 6%.

Dr.			Cr.		
1925.		£			£
Jan. 1	To Brown (1) ..	1000	Ap. 1	By Robinson (4) ..	1000
Ap. 1	Interest.. ..	15			
	Balance	15			

2. BROWN'S ACCOUNT.—Overdraft £1000 at 6%.

Dr.			Cr.		
1925.		£			£
Jan. 1	To Jones (2)	2000	Jan. 1	By Smith (1) ..	1000
Ap. 1	Interest.. ..	15	Ap. 1	Robinson (5) ..	1000
	Balance	15			

3. JONES' ACCOUNT.—Overdraft £1000 at 6%.

Dr.			Cr.		
1925.		£			£
Jan. 1	To Robinson (3)	3000	Jan. 1	By Brown (2) ..	2000
Ap. 1	Interest.. ..	15	Ap. 1	Robinson (6) ..	1000
	Balance	15			

4. ROBINSON'S ACCOUNT.

Dr.			Cr.		
1925.		£			£
Ap. 1	To Smith (4) ..	1000	Jan. 1	By Jones (3)	3000
1	Brown (5) ..	1000			
1	Jones (6) ..	1000			

It is important to note how the cross entries (numbered) cancel each other. As regards the accounts of Smith, Brown and Jones, it is clear that all the bank has done is to make certain book entries in accordance with its customer's instructions, by cheques presented, in return for a payment of £45. (It is not in the least essential that all individuals trading together should have accounts in the same bank. The clearing-house, by cancelling per contra accounts between individual banks, makes them, in effect, one.) The bank, it is true, owes Robinson £3000 on January 1st, and between that date and April 1st Robinson may use his money (i.e., his credit), but, so long as his transactions are by cheque, they involve nothing more than book entries. ALL transactions, it is true, are not by cheque. Some small payments are in silver and copper, or gold, when gold is payable on demand. To that extent banks do part with something substantial, but the amounts paid or received in coin are relatively very small.

It is asserted, and that frequently, that if interest charges are admittedly high that is to cover "compensation for risk." But banks take NO risk—their overdrafts are based upon "forced sale" values, with a margin beside. It is Smith, Brown, Jones who take the risk, and all of it: they stand to lose their original securities, and their collaterals. The bank sells them to recoup itself first, and charges them sellers' commission, inquiry and agent's charges, too. Smith is lucky if he gets, not of course in cash, but as a credit against his debt, more than 40 per cent. of the normal exchange value of his pledged security.

Bankers are the bookkeepers of our modern system of business. Commodities pass from hand to hand. Bankers, in effect, keep a record of those who OWN and those who merely HOLD the said commodities. A man who "holds" more commodities than he "owns" has his account in debit—per contra, a man who owns more than he holds has his account in credit. He can at any moment change his own credit (not his overdraft) into goods and hold all he owns.

In these ways, then, banks DO render service—by exercise of a privilege, voluntarily conferred on them by the community. That service, which could not be rendered except for the fact that a community has made it possible, is grossly overpaid—which simply means that banks divert to their own coffers a large proportion of the profits of manufacture and trade. They exploit the exploiter. And, though it seems almost impossible, the majority of "shrewd business men" do not, apparently, recognise THE EXTENT to which they are exploited—all of them know they are paying "a bit too much," but most fail to see HOW MUCH.

The REMEDY for monetary troubles may briefly be summed up: 1. Abolish private banks and substitute for them one National Bank. 2. Make paper money legal tender EXCEPT by the NATIONAL Bank. 3. Stabilise paper money by founding it on commodities. (See "From Capitalism to Freedom," p. 186.)

Now while exploitation affects, and that profoundly, the mental, moral and spiritual development of society (one has only to remember that the borrower is in servitude to the lender, and the wage-earner in bondage to his employer) it is, of necessity, to the material result of exploitation we must now turn.

Exploitation of workers by a class of landlords and manufacturers, merchants and bankers results in an unequal distribution of wealth, and the result of that again is that production is restricted—PERIODICALLY, greatly restricted—and the market for consumption goods almost destroyed.

Let the manufacturer state his own case: "Unless I can sell my goods as cheaply as others, I cannot sell them at all, consequently I am compelled, under pain of bankruptcy, to reduce my costs to a minimum. I may do that in several or all of the following ways: I may reduce wages; lengthen hours; induce my men to work harder; introduce automatic and up-to-date machinery; improve my methods and organisation. I do not want to do these things, but I must if I am to live. I cannot afford to be a philanthropist, nor am I in business merely for "the good of my health."

The plea must be admitted. Our manufacturer is evidently a creature of circumstances, and probably a very decent fellow.

What then are the circumstances?

More goods are produced than can be sold. And they cannot be sold for two reasons: firstly, because those who want the goods have not got the money to buy them; secondly, because those who have got the money, do not want them. That is the position in a nutshell.

Remembering that the great bulk of consumers are wage and salary receivers, let us consider the effect of the measures our manufacturer was compelled to take.

To "reduce wages" is to reduce the purchasing power of wage-receivers. To "lengthen hours" means that fewer men are required—that less wages are paid and fewer goods can be sold.

More "intense labour" has exactly the same result: fewer men—less wages—fewer goods sold. To introduce better methods and more automatic machinery has the same result: fewer men—less wages—fewer goods sold.

There is no escape from the dilemma so far as the market made by the worker is concerned. Remains the market made by the wealthy capitalists themselves. Their consuming capacity is limited—let us stretch it with luxuries as far as possible. And here we note that luxury is good for trade, and Ruskin's fine indignation was wasted. For production to continue goods must be consumed, whether by use, or waste, or fire, or luxury, or war, is, from the economic point of view, a matter of indifference. The almost agonised cry of the manufacturer is for a market: his frenzied endeavour is to sell his goods. It has been seriously stated that it costs as much to sell as to produce an article. That is an enormous but beneficial waste. How otherwise would all those "travellers" live?

After an extensive fire men are employed—during the war men—and women too—were employed. Under the 'inexorable' law of capitalist economics waste and fire and war are good in that they enable men to be employed. "Fair is foul and foul is fair" might well be adopted as the motto of the system. Seen "through the fog and filthy air" of Capitalism all virtues are distorted. Clearly the home market can only be improved by increasing wages, or by increasing the luxury of the rich. The foreign market may possibly be captured by reducing wages, etc. Let us see—perhaps it can be done—for a time.

Trade is in reality an exchange of goods and services for goods and services. Foreign trade is chiefly an exchange of goods—(shipping is, however, a service). That being so, what are we to exchange? Of manufactured consumption goods we already have too many—the home market is oversupplied; but we may take raw materials as wheat and wool, and in return we give our surplus manufactured goods, and all is well—for a time. Presently, other nations, having their own unemployed, raise a protective tariff and start manufacturing for themselves. Still trade is good—for a time—because we are able to send machinery instead of, or in addition to, manufactured consumption goods. Then comes a slump—a trade depression. Australia, for instance, is beginning to turn her own wool into cloth and blankets, etc. (how will that affect Bradford?), and to make her own steel rails (how will that affect Sheffield?) and her own machinery (what has Leeds to say?), and soon cotton and cotton mills will follow. No—there is no permanent solution in foreign trade.

Then "Economy" is the cry: reduce expense by dismissing unnecessary civil servants, cut down on naval, military, educational establishments: by an even greater amount you enlarge unemployment and therefore decrease the spending power of the community: still fewer goods are required by the market. Well, obviously, emigration: there is a land overseas: for men there is no call in England—unless there should be another war; or "Capital" may emigrate and employ "cheap" labour. It would be simpler to adopt Dean Swift's "remedy for the current distress in Ireland"—and practise infanticide and cannibalism. True the Dean's remedy is drastic: true that "it is the people that make the State, whose real riches lie in its inhabitants": but what else is there? One final refuge remains: Imperialism. There is an abundance of the "raw materials of nature" to be exploited: oil in Mosul, iron ore in China and Morocco, coal in the Ruhr and elsewhere,

cotton-lands in Egypt and Australia, rubber in the Congo, and "concessions" everywhere. Suppose the suggestion is accepted, what then? War, destruction of "goods," and therefore a market. Assuredly a market—for a year, or it may be five: and then? Surely we have seen it: Europe bankrupt, and as a last hope an attempt to make a market "within the Empire." Once we sold to the world: now we are trying to make a handful of dominions and colonies appear to us as if they were the world. In vain, absolutely in vain! It matters not whether the unit be state, nation, empire or world, sooner or later the fatal dislocation in distribution brings production to a standstill and a starving multitude faces warehouses bursting with merchandise, but between them flashes the sword of "law and order."

Thus in sum it amounts to just this:—Assuming the present capitalist system, there are two and only two results—

(a) Those who can, and are willing to, consume "goods" are unable to pay for them.

(b) Those who can pay for them, cannot, or are unwilling to consume them.

Or it may be expressed in one sentence: "Sale of consumption goods is restricted by the limited capacity of the worker's purse on the one hand, and the capitalist's stomach on the other." To sell cheapely, wages must be reduced: to reduce wages is to diminish the power of purchase: to sell freely, purchasing power must be increased. Thus does Capitalism ring its own knell. **We cannot at the same time both reduce wages to secure cheapness and increase them to provide a market.** A system which attempts the impossible and absurd stands self-condemned, and is clamant for replacement.

The position is aptly illustrated by an actual case from nature. A dead beast was found on a cattle "run" or ranch, one horn of the unfortunate animal having grown so as to pierce the eye and penetrate the brain. No doubt madness preceded death. That is exactly what is threatening the capitalist system—involuntary self-slaughter. And there is more than one mad cow in the arena.

Now our own wealth commands us; we are destroyed by the works of our own hands by the very machinery we have ourselves invented. The more efficient production becomes, by specialisation and invention, the less efficient grows distribution because there has been no accompanying synthesis or integration.

The increasing load of financial obligation presages disaster. Not yet, it has been said, have we paid for the

Battle of Waterloo. Gone are those who fought and fell on the field: gone those who survived: gone, even, those whose supreme sacrifice it was to furnish loans, at 6 per cent. interest: sabre and bayonet—mere streaks of rust; the pageant and the panoply of war—gone; all are gone, but the DEBT lives on.

And of the late war what remains? Have we not lost much of the best blood and strength of the nation, much of "the soul-substance of it that is brave, and careless of reward, and scornful of pain, and faithful in trust"; only to keep more of the worst, the cowardly, avaricious and cunning? What have we to show for our expended millions but the national debt? Only, it may well be, a surgical operation—such as is involved in the "Capital Levy"—can save us from the, finally fatal, result of the ingrowing horn.

THE TRADE CYCLE.—The maldistribution of wealth permanently restricts trade, yet trade has its ebbs and flows. Everyone has heard of the "trade cycle": business men know it only too well. But its cause, and its course, are not equally well known or understood.

If we neglect seasonal variations, the period of the cycle is about eleven years, with a tendency, as the economic unit grows in size, to lengthen out. What really lies behind these recurring "depressions" is not only the maldistribution of wealth, but the absolutely enormous power of production under conditions of modern industry. During the war, '14-'18, notwithstanding the millions of producers withdrawn from industry to the front, while there was no appreciable shortage of such consumption-goods as are produced in time of peace, there were in addition the immense quantities of special war-goods, munitions of every kind, shells, cannon, tanks, aeroplanes (almost an entirely new industry), whole navies, to say nothing of this, that each man in each army had to be almost completely reoutfitted every few months. And the people who made these things were better off, in many cases, than they had ever been before. Yet, with this enormous extra production, we only lived on capital to the slight extent in which we neglected to repair or replace plant, if indeed there was any such neglect: as a matter of fact plant was, on the whole, better at the end than at the beginning of the war.

Thus behind the periodical depressions of trade lie unequal distribution of wealth and an industrial equipment capable of producing enormously in excess of average annual consumption. The actual course of the trade-cycle may be easily and briefly described. Let us begin with its phase of maxi-

mum production. Trade is "booming": production at its highest, unemployment at its lowest.

After a comparatively short time the market, by general over-production, becomes "glutted," and goods produced cannot be sold. The result is a general "go-slow"—short time, lessened output, men dismissed, cheaper costs by reduction of wage and salary. But wage and salary receivers are the principal purchasers of consumption goods, and their reduced purchasing power offsets decreased production and surplus goods, therefore remain as before unsold. Prices are then lowered; the check to production becomes a depression, sometimes a panic; works are wholly shut down; the unemployed walk our streets. But work or no work, men are not left, in these days, to starve outright—the "dole" is instituted, or public works started in advance of normal development.

Meanwhile, the disease is by way of working its own cure. Profits have greatly diminished: "water" has been squeezed out of joint-stock industrials: smaller, less efficient, factories close permanently: amalgamation reduces overhead charges. Continued consumption even at a reduced rate—the dole is a bare subsistence—together with lessened production, gradually turns the scale. With all stocks worked off, and production fallen to the minimum, hope revives and trade revives. Some men are taken on: trade improves: more men are employed: trade is good: prices rise and wages rise: trade is prosperous, and so the cycle ends—only to begin again!

> O judgment, thou art fled to brutish beasts,
> And men have lost their reason!